

1986

- **WE HAD 7 MILLION SUBS**
- **ALL FREE, NO LICENSE FEES, NO AFFILIATE REVENUE STREAM**
- **NO AD SALES, TOO SMALL TO BE METERED BY NIELSEN**
- **TRANSLATE - LOSING A LOT OF MONEY**
- **NO PROSPECT OF A FUTURE VIABLE BUSINESS WITHOUT AFFILIATE REVENUE AND AD REVENUE**
- **WE HAD TO INCENT DISTRIBUTION TO ACHIEVE BOTH AD AND AFFILIATE REVENUE**

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES:

- **AD REVENUE VARIES IN DIRECT PROPORTION TO THE NUMBER OF VIEWERS.**
- **EACH AD BUY PROMISES A SPECIFIC NUMBER OF VIEWERS.**
- **THE NUMBER OF VIEWERS IS DERIVED FROM 2 SOURCES:**
 - **COVERAGE: TOTAL NUMBER OF HOMES THAT CAN RECEIVE SERVICE**
 - **RATING: THE PERCENT THAT ACTUALLY WATCH**
- **THE MORE SUBSCRIBERS WHO CAN RECEIVE YOUR SERVICE, THE MORE POTENTIAL VIEWERS (ASSUMING YOU CAN ENTICE THE SAME PERCENTAGE TO WATCH):**
 - **20M SUBS X 1 RATING = 200,000 VIEWERS**
 - **60M SUBS X 1 RATING = 590,000 VIEWERS**

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES CONT...

A CURRENT "REAL WORLD" EXAMPLE:

TLC: 20M SUBS X .2 RATING = 40,000 VIEWERS

OUR OPERATING PHILOSOPHY

- **Because two things determine Ad revenue, total homes who can see service and the percent who actually watch, we have 2 fundamental strategies:**
 1. **Incent "everyone" (cable, SMATV, MMDS, etc) to make Discovery available to the largest number of homes.**
 2. **Invest in programming. Constantly enhance program quality so people "tune in" and watch.**

OUR STRATEGY:

ANYONE WHO RIPPED UP A FREE AGREEMENT AND PROMISED TO CARRY SERVICE WAS GIVEN LOWER FUTURE RATES OVER A PERIOD OF YEARS.

TO QUALIFY, AFFILIATES HAD TO TEAR UP FREE AGREEMENT AND SIGN UP AS A "CHARTER AFFILIATE" BY DECEMBER 1987.

**HISTORICAL OVERVIEW OF DISCOVERY'S
EXISTING RATE CARDS**

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PRE-1987: Discovery was offered to all potential distributors free of charge in order to "drive" distribution.

1987: In order to cover increasing programming costs, TDC asked affiliates to terminate their "free" agreements and enter into a new five year agreement that called for a nominal rate per sub. Key features of the new rate card included:

- * guaranteed low rates for 5 years
- * small discounts based on volume in order to "drive" rapid system "launches"
- * a "rebate" of a portion of TDC ad sales to affiliates who met carriage benchmarks (this "rebate" was also designed to "drive" rapid system "launches")

NOTE: Over 90% of TDC's subscribership falls under this rate card.

1988-1993: As "free" agreements expired for those affiliates who did not take advantage of the 1987 offer, a new "higher priced" rate card became effective. Key features of this rate card are:

- * a higher top of rate card than that offered in 1987
- * small discounts based on volume in order to "drive" rapid system "launches"
- * no ad sales "rebate"

1990: In order to respond to requests from TVRO affiliates, TDC "scrambled" its service. At that time, TDC developed a rate card for TVRO affiliates. Key features of this rate card are:

- * a top of rate card that fell below that of most competing services but allowed for incremental costs associated with servicing the TVRO market
- * small discounts based on volume in order to "drive" rapid system "launches"

DISCOVERY RATE CARD RATIONALE

- **Discovery has same volume-based rate card for cable, SMATV & MMDS**
- **Differences are based on historical circumstances, ie. when did they become Discovery affiliates**
 - **Pre-Jan 1988: Accepted Special Offer to "tear up" free agreement**
 - **Post-Jan 1988: Rejected special offer or affiliated later**

Discovery Has 3 Categories of Affiliate Agreements
All Based on Historical Circumstances

Total number Discovery subs	Category	Explanation
46.6 M	Pre-Jan 1988- Charter Affiliates	Charter Discounts granted: chose to terminate free agreements in exchange for long term favorable rates. Includes cable & SMATV
6.8 M	Post-Jan 1988- Noncharter & New Affiliates	Chose <u>NOT</u> to terminate free agreements in exchange for long term favorable rates. Includes cable, SMATV & MMDS
.8 M	TVRO	Did not pay us until we scrambled in Sept 1990

DISCOVERY CHARTER DISCOUNT RATE CARD

	1992	1993	1994	1995	1996
Up to 99,999 Plus	11.0¢	13.0¢	15.0¢	17.0¢	19.5¢
100,000 to 199,999 Plus	10.5¢	12.5¢	14.5¢	16.5¢	19.0¢
200,000 to 399,999 Plus	10.0¢	12.0¢	14.0¢	16.0¢	18.5¢
400,000 to 799,999 Plus	9.5¢	11.5¢	13.5¢	15.5¢	18.0¢
800,000 to 1,599,999 Plus	9.0¢	11.0¢	13.0¢	15.0¢	17.5¢
1,600,000 to 3,199,999 Plus	8.5¢	10.5¢	12.5¢	14.5¢	17.0¢
Above 3,200,000	8.0¢	10.0¢	12.0¢	14.0¢	16.5¢

DISCOVERY NONCHARTER & NEW AFFILIATE RATE CARD

<u>FOR EACH AFFILIATE</u>		<u>FEE PER TDC SUBSCRIBER PER MONTH</u>		
TDC Subscriber		1993	1994	1995
0	- 999 Plus	23.0¢	24.0¢	25.0¢
1,000	- 4,999 Plus	22.0¢	23.0¢	24.0¢
5,000	- 9,999 Plus	21.0¢	22.0¢	23.0¢
10,000	- 19,999 Plus	20.0¢	21.0¢	22.0¢
20,000	- 29,999 Plus	19.0¢	20.0¢	21.0¢
30,000	- 39,999 Plus	18.0¢	19.0¢	20.0¢
40,000	- 49,999 Plus	17.0¢	18.0¢	19.0¢
50,000	- 99,999 Plus	16.5¢	17.5¢	18.5¢
100,000	- 199,999 Plus	16.0¢	17.0¢	18.0¢
200,000	- 399,999 Plus	15.5¢	16.5¢	17.5¢
400,000	- 799,999 Plus	15.0¢	16.0¢	17.0¢
800,000	- 1,599,999 Plus	14.5¢	15.5¢	16.5¢
1,600,000	+ Plus	14.0¢	15.0¢	16.0¢

1993 Rate Card Detail
(Highest, Average and Lowest Rates)

	APPLICABLE # OF SUBS	93 AVERAGE RATE/MO	93 TOP OF RATE CARD	93 LOWEST RATE/MO
Charter affiliates	46.6M	9.3¢	11.5¢	8.8¢
Non-Charter + New Affiliates	6.8M	18.6¢	23.0¢	16.0¢
TVRO	.8M	35.2¢	38.0¢	33.0¢
GRAND TOTALS	54.2M	\$10.8¢	38¢	8.8¢

DISCOVERY RATES FOR TOP 15 MSOs

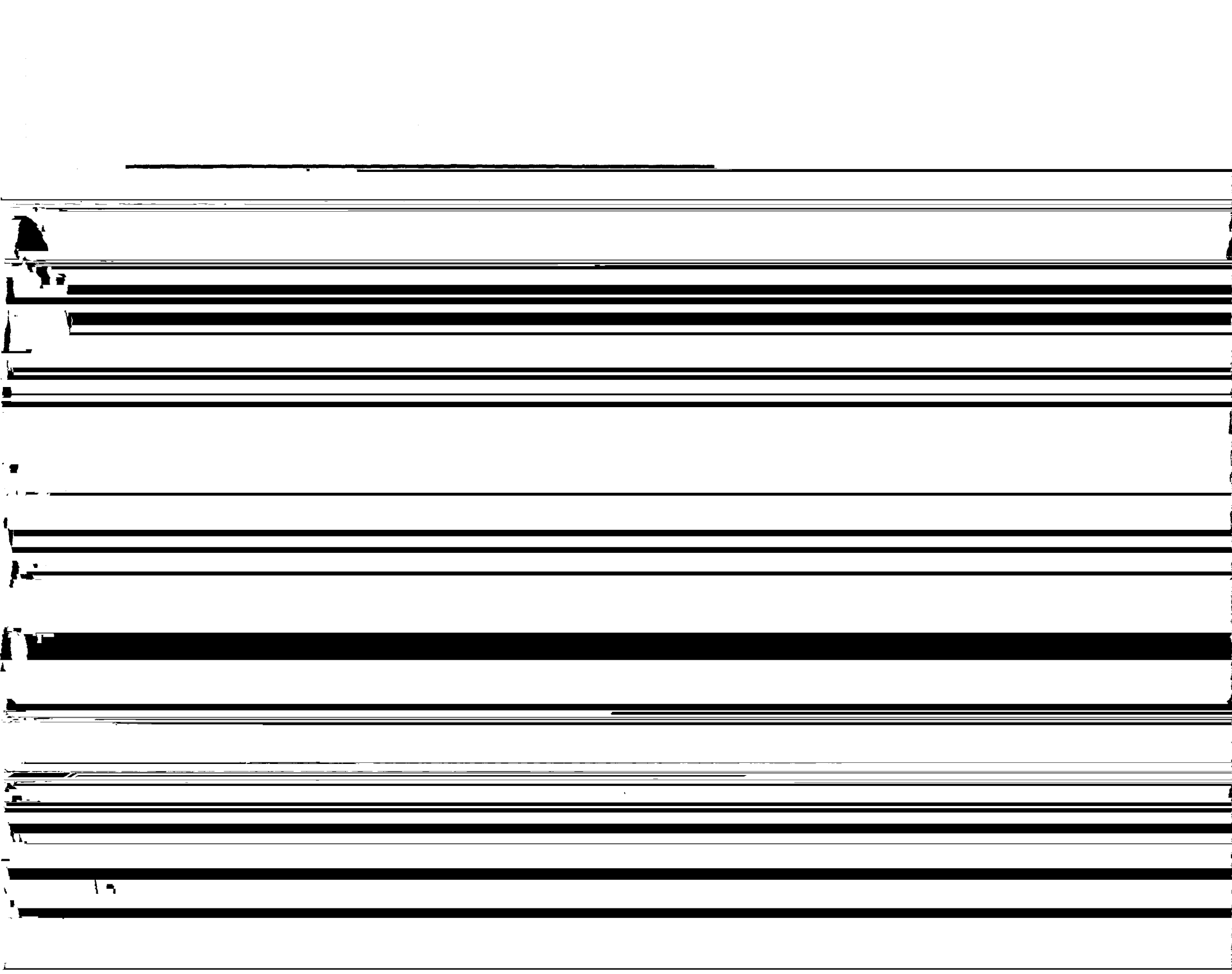
SYSTEM NAME	TDC SUBS	NET RATE SUB/MONTH
TCI	12,394,126	8.8¢
ATC/PARAGON	6,718,018	9.0¢
CONTINENTAL	2,847,529	9.6¢
COMCAST	2,370,738	9.7¢
CABLEVISION SYSTEMS	2,000,711	9.8¢
COX CABLE	1,708,978	10.0¢
JONES INTERCABLE	1,206,051	10.1¢
TIMES MIRROR	1,179,417	10.2¢
CABLEVISION INDUSTRIES	1,124,331	10.2¢
VIACOM	1,093,094	10.2¢
ADELPHIA CABLE	996,137	10.3¢
SAMMONS	896,105	10.4¢
CENTURY	771,282	10.5¢
NCTC	735,363	10.5¢
COLONY	700,000	10.6¢

DSC RATE CARD OPERATING PRINCIPLES

- . FAIRNESS ACROSS ALL CABLE MSO'S AND SMATV/MMDS OPERATORS IS OUR CARDINAL RULE**
- . MUST BE ABLE TO "LOOK EVERYONE IN THE EYE"**
- . VOLUME IS FAIR BECAUSE IT ABSOLUTELY AND DIRECTLY DETERMINES AD REVENUE**

DSC PENETRATION BY TECHNOLOGY

<u>CATEGORY</u>	<u>UNIVERSE</u>	<u>12/92 DSC SUBS</u>	<u>%</u>
CABLE	62,000K	59,000K	95%
SMATV	830K	553K	66%
MMDS	282K	232K	82%
PAYING TVRO	1032K	832K	81%
TOTAL ALTERNATE TECHNOLOGIES	2144K	1617K	75%



**REVENUE LOSS TO DSC IF LOWEST UNIT RATE IS
ADOPTED:**

93	94	95	96	4 YEAR TOTAL
\$13M	\$12M	\$11M	\$10M	\$46M

PROPOSED REMEDIES

- **Presumption that pricing is not discriminatory or anti-competitive if:**
 - **programmer offers same rate card to alternate technologies as to cable affiliates**
 - or**
 - **rates to alternate technologies are under the average rate**

EXHIBIT A:

**SOME REAL WORLD
"ADVERTISING EXAMPLES"**

CONFIDENTIAL

DISCOVERY COMMUNICATIONS, INC.

M E M O

DATE: March 16, 1993

TO: RUTH OTTE

cc: BILL McGOWAN

II. EXAMPLES OF HOW SIZE IMPACTS REVENUE

A. GENERAL DEFINITIONS

Revenue can be measured in several ways.

UNIT COST -- The actual cost per commercial unit.

DEMO COST PER THOUSAND (CPM) -- The key measurement used to compare a networks proposal with a competitor.

TOTAL COST -- The total revenue paid by an advertiser to a network for the total units received.

B. SPECIFIC EXAMPLES

Attached are examples of how actual proposals for the client on TDC and TLC generated significantly different revenue (on every key measurement) or due to different in size.

III. CONCLUSION

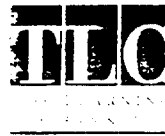
Please let me know if you need any additional information.

TDC vs. TLC
IMPACT ON REVENUE SIZE

A. <u>SMALL DOLLAR ORDER (Example A)</u>	<u>TDC</u>	<u>TLC</u>	<u>TDC ADVANTAGE</u>
COVERAGE UNIVERSE*	59,496,000	18,000,000	+231%
TOTAL UNITS	14	42	-67%
TOTAL COST	\$9,000.00	\$5,000.00	+80%
AVG. UNIT COST	\$643	\$119	+44%
HH CPM	\$3.20	\$2.79	+15%
TOTAL HH DELIVERED	2,851,000	1,792,000	+57%

B. MEDIUM DOLLAR ORDER (Example B)

DISCOVERY COMMUNICATIONS, INC.



October 1, 1992

Example A

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
New York, NY 10019-6095

Dear [REDACTED]

Thank you very much for your fourth quarter, 1992 order on The Discovery and Learning Channel, on behalf of your client, [REDACTED]. This letter serves as a confirmation and will give the details of our firm agreement.

The Discovery Channel Universe: 59,496,000

Total #:30's	:	14
Total # Billboards	:	6
Total HH Impressions	:	2,817,000
HH CPM	:	\$3.20
Total A35-64	:	1,833,000
Guaranteed A25-54 CPM	:	\$4.91
Total Cost <i>564</i>	:	\$9,000

The Learning Channel Universe: 18,000,000

Total Package:	Total #:30 Units	:	42
	Total # Billboards	:	18
	Total HH Impressions	:	1,792,000
	HH CPM	:	\$2.79
	Total A35-64 Imps	:	1,109,000 <i>110,000</i>
	Guaranteed A35-64 CPM	:	\$4.51
	Total Cost <i>A</i>	:	\$5,000

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Example A

Terms and Conditions:

Cancellation Firms: FIRM

Post Buy Analysis: Will be performed quarterly. Any audience deficiency will be made good with units scheduled in a 9a-3a rotation, as quickly as is practical.

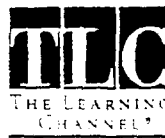
██████ thank you again, for your support of The Discovery and Learning Channel. We look forward to a mutually successful business relationship.

Sincerely,

Amy Baker
Account Executive

cc: IDC
Gary Evans

DISCOVERY COMMUNICATIONS, INC.



Example B

February 2, 1993

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Dear [REDACTED]

Thank you very much for your 1993 upfront order on The Discovery Channel and The Learning Channel, on behalf of your client, [REDACTED]. This letter serves as a confirmation and will give the details of our firm agreement.

[REDACTED]

Example B

Terms & Conditions:

Cancellation Options:	First Quarter, 1993:	FIRM
	Second Quarter, 1993	FIRM
	Third Quarter, 1993	50% Firm/90 days written notice
	Fourth Quarter, 1993	50% Firm/90 days written notice

Expansion Rights: Maximum of 20% expansion of quarterly expenditure level at quarterly guidelines. Subject to inventory availability.

Post-Buy Analysis: Will be performed quarterly. Audience Deficiency will be made good as quickly as is practical.

[REDACTED], we value your business and thank you for your support of Discovery Communications. I look forward to a long-lasting business relationship.

Sincerely yours,



Amy Baker
Account Executive

cc: TDC
Gary Evans
Greg Fioravanti
Karen Poster

[REDACTED]
[REDACTED]
[REDACTED]